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CAPITAL MARKET

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CONCEPT OF CAPITAL MARKET

A **capital market** is a financial market in which long-term debt (over a year) or equity-backed securities are bought and sold.[6] Capital markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments.[a] Financial regulators like Securities and Exchange Board of India (SEBI), Bank of England (BoE) and the U.S. Securities and Exchange Commission (SEC) oversee capital markets to protect investors against fraud, among other duties.

Definition: Capital Market, is used to mean the market for long term investments, that have explicit or implicit claims to capital. Long term investments refers to those investments whose lock-in period is greater than one year.

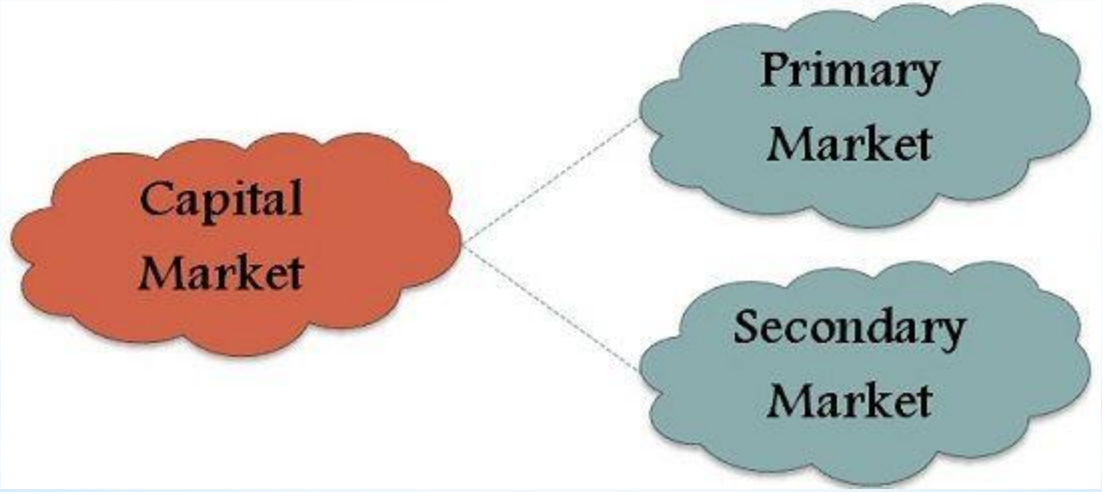
Functions of Capital Market

1:-Mobilization of savings to finance long term investments.
Facilitates trading of securities.
2:-Minimization of transaction and information cost.
3:-Encourage wide range of ownership of productive assets.
4:-Quick valuation of financial instruments like shares and debentures.
5:-Facilitates transaction settlement, as per the definite time schedules.
6:_Offering insurance against market or price risk, through derivative trading.
7:-Improvement in the effectiveness of capital allocation, with the help of competitive price mechanism.

Capital market is a measure of inherent strength of the economy. It is one of the best source of finance, for the companies, and offers a spectrum of investment avenues to the investors, which in turn encourages capital creation in the economy.

Types of Capital Market

The capital market is bifurcated in two segments, primary market and secondary market:



1.PRIMARY MARKET: Otherwise called as New Issues Market, it is the market for the trading of new securities, for the first time. It embraces both initial public offering and further public offering. In the primary market, the mobilisation of funds takes place through prospectus, right issue and private placement of securities.

2.SECONDARY MARKET:-. Secondary Market can be described as the market for old securities, in the sense that securities which are previously issued in the primary market are traded here. The trading takes place between investors, that follows the original issue in the primary market. It covers both stock exchange and over-the-counter market.

Primary Market

In a **primary market**, securities are created for the first time for investors to purchase. New securities are issued in this market through a stock exchange, enabling the government as well as companies to raise capital.

For a transaction taking place in this market, there are three entities involved. It would include a company, investors, and an underwriter. A company issues security in a primary market as an initial public offering (IPO), and the sale price of such new issue is determined by a concerned underwriter, which may or may not be a financial institution. An underwriter also facilitates and monitors the new issue offering. Investors purchase the newly issued securities in the primary market. Such a market is regulated by the Securities and Exchange Board of India (SEBI).

The entity which issues securities may be looking to expand its operations, fund other business targets or increase its physical presence among others. **Primary market example** of securities issued includes notes, bills, government bonds or corporate bonds as well as stocks of companies

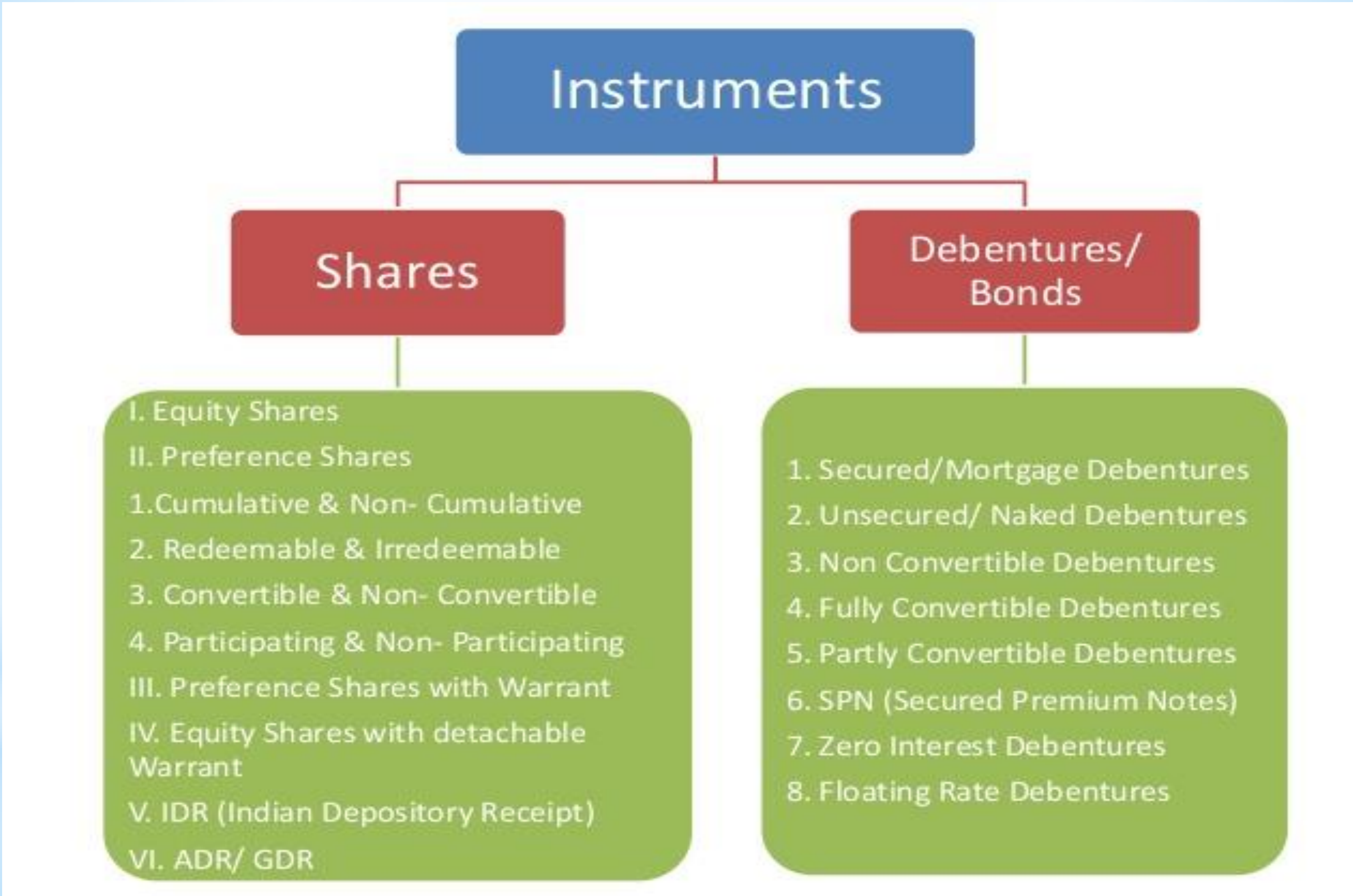
Functions of Primary Market

1:-NEW ISSUE OFFER

2:-UNDERWRITING SERVICES

3:-DISTRIBUTION OF NEW ISSUES

The **main function** of the **primary market** is to facilitate the company to raise long term funds by making fresh issues of shares or debentures. Origination – Origination refers to the identification, assessment, and processing of newly issued securities.


Instruments
Shares
Debentures/ Bonds
I. Equity Shares
II. Preference Shares
1.Cumulative & Non- Cumulative
2. Redeemable & Irredeemable
3. Convertible & Non- Convertible
4. Participating & Non- Participating
III. Preference Shares with Warrant
IV. Equity Shares with detachable Warrant
V. IDR (Indian Depository Receipt)
VI. ADR/ GDR
1. Secured/Mortgage Debentures
2. Unsecured/ Naked Debentures
3. Non Convertible Debentures
4. Fully Convertible Debentures
5. Partly Convertible Debentures
6. SPN (Secured Premium Notes)
7. Zero Interest Debentures
8. Floating Rate Debentures

Floatation of primary market

- 1:-PUBLIC ISSUE
- 2:-OFFER FOR SALE
- 3:-PRIVATE PLACEMENT
- 4:-RIGHT IUSSE
- 5:-ELECTRONIC INITIAL PUBLIC ISSUE{IPOS}

SECONDARY MARKET

The **secondary market**, also called the **aftermarket** and **follow on public offering**, is the financial market in which previously issued financial instruments such as stock, bonds, options, and futures are bought and sold.[1] Another frequent usage of "secondary market" is to refer to loans which are sold by a mortgage bank to investors such as Fannie Mae and Freddie Mac.

The term "secondary market" is also used to refer to the market for any used goods or assets, or an alternative use for an existing product or asset where the customer base is the second market (for example, corn has been traditionally used primarily for food production and feedstock, but a "second" or "third" market has developed for use in ethanol production).

Types of Secondary Market

Secondary markets are primarily of two types – Stock exchanges and over-the-counter markets.

Stock exchange

Stock exchanges are centralised platforms where securities trading take place, sans any contact between the buyer and the seller. National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) are examples of such platforms.

Transactions in stock exchanges are subjected to stringent regulations in securities trading. A stock exchange itself acts as a guarantor, and the counterparty risk is almost non-existent. Such a safety net is obtained via a higher transaction cost being levied on investments in the form of commission and exchange fees.

Over-the-counter (OTC) market

Over-the-counter markets are decentralised, comprising participants engaging in trading among themselves. OTC markets retain higher counterparty risks in the absence of regulatory oversight, with the parties directly dealing with each other. Foreign exchange market (FOREX) is an example of an over-the-counter market.

Functions of Secondary Markets

- *Provides regular information about the value of security.*
- *Helps to observe prices of bonds and their interest rates.*
- *Offers to investors liquidity for their assets.*
- *Secondary markets bring together many interested parties.*
- *It keeps the cost of transactions low.*

Trading and Settlement Procedure

1] Selecting a Broker or Sub-broker

When a person wishes to trade in the stock market, it cannot do so in his/her individual capacity. The transactions can only occur through a broker or a sub-broker. So according to one's requirement, a broker must be appointed.

Now such a broker can be an individual or a partnership or a company or a financial institution (like banks). They must be registered under SEBI. Once such a broker is appointed you can buy/sell shares on the stock exchange.

2] Opening a Demat Account

Since the reforms, all securities are now in electronic format. There are no issues of physical shares/securities anymore. So an investor must open a dematerialized account, i.e. a Demat account to hold and trade in such electronic securities.

So you or your broker will open a Demat account with the depository participant. Currently, in India, there are two depository participants, namely Central Depository Services Ltd. (CDSL) and National Depository Services Ltd. (NDSL).

3] Placing Orders

And then the investor will actually place an order to buy or sell shares. The order will be placed with his broker, or the individual can transact online if the broker provides such services. One thing of essential importance is that the order /instructions should be very clear. Example: Buy 100 shares of XYZ Co. for a price of Rs. 140/- or less.

Then the broker will act according to your transactions and place an order for the shares at the price mentioned or an even better price if available. The broker will issue an order confirmation slip to the investor.

4] Execution of the Order

Once the broker receives the order from the investor, he executes it. Within 24 hours of this, the broker must issue a Contract Note. This document contains all the information about the transactions, like the number of shares transacted, the price, date and time of the transaction, brokerage amount, etc.

Contract Note is an important document. In the case of a legal dispute, it is evidence of the transaction. It also contains the Unique Order Code assigned to it by the stock exchange.

5] Settlement

Here the actual securities are transferred from the buyer to the seller. And the funds will also be transferred. Here too the broker will deal with the transfer. There are two types of settlements,

On the Spot settlement: Here we exchange the funds immediately and the settlement follows the T+2 pattern. So a transaction occurring on Monday will be settled by Wednesday (by the second working day)

Forward Settlement: Simply means both parties have decided the settlement will take place on some future date.

TRADING, CLEARING AND SETTLEMENT

	Activity	Day
Trading	Rolling Settlement Trading	T
Clearing	Custodial Confirmation	T+1 working days
	Delivery Generation	T+1 working days
Settlement	Securities and Funds pay in	T+2 working days
	Securities and Funds pay out	T+2 working days


THANK
YOU!